

WESTERN DEPARTMENT STORES
AND SUBSIDIARIES

REPORT
to
STOCKHOLDERS

January 31, 1944

Stores operated:

OLDS, WORTMAN & KING

Portland
Est. 1851

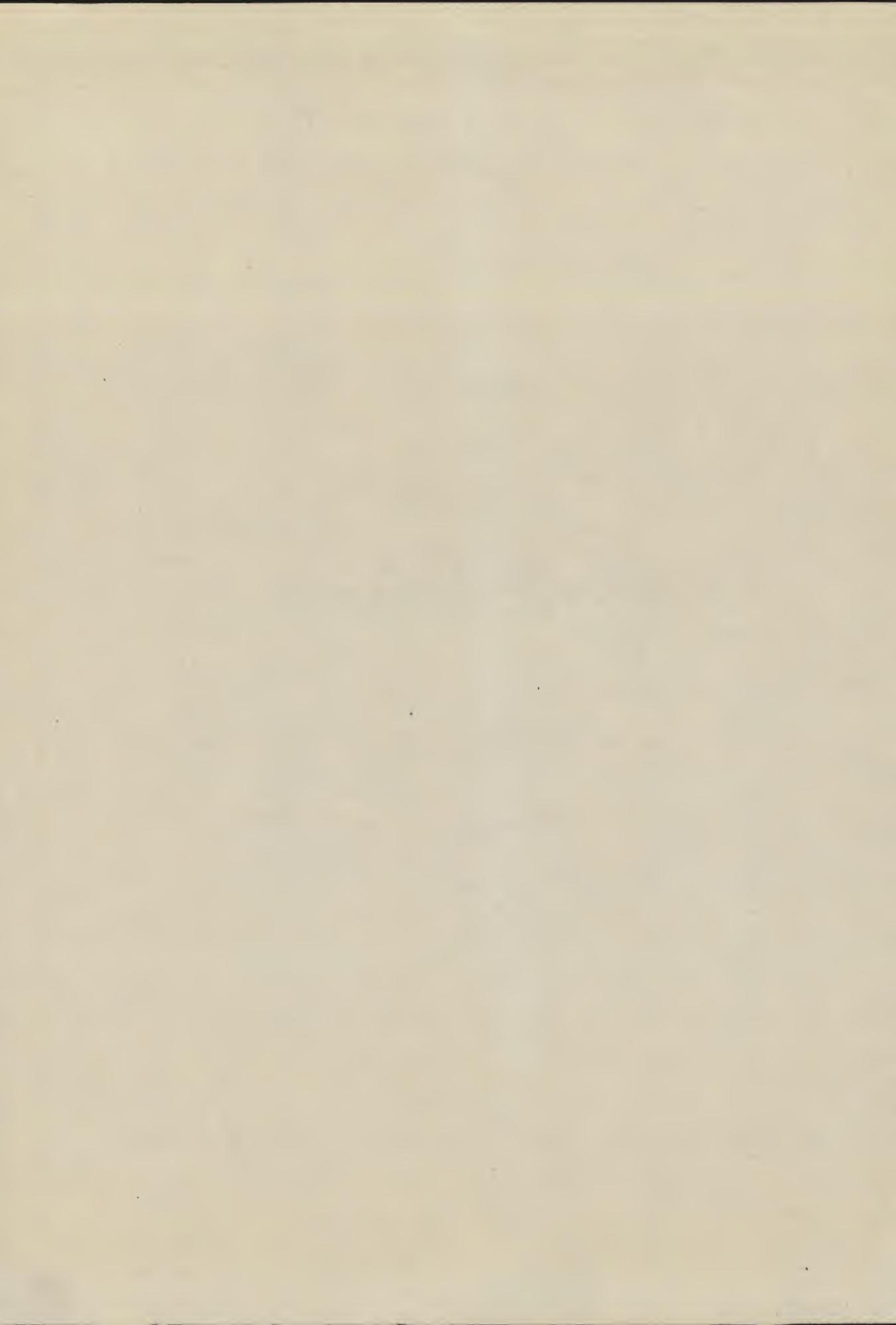
KAHN'S

Oakland
Est. 1879

RHODES BROTHERS

Tacoma
Est. 1892

MRB
CORP. FILE



WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

J. R. BEARWALD	F. R. McGREW
HERBERT E. CLAYBURGH	JOHN J. REILLY
JOHN J. GOLDBERG	F. A. WICKETT
F. J. YOUNG	

OFFICERS

President	JOHN J. REILLY
Vice-President	HERBERT E. CLAYBURGH
Secretary and Treasurer	F. R. McGREW
Assistant Secretary	JOHN J. GOLDBERG
Assistant Treasurer	H. W. RHEUBOTTOM

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE, WATERHOUSE & Co.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO

No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST CO.

Montgomery and Market Streets
San Francisco, California

Annual Stockholders Meeting . . . Oakland, California, April 25, 1944, 10:00 o'clock A.M.
Executive Offices . . . 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California
April 8, 1944

To the Stockholders of
WESTERN DEPARTMENT STORES:

Consolidated financial statements for the fiscal year ended January 31, 1944, examined and reported upon by Price, Waterhouse & Co., are submitted herewith.

These statements consist of a consolidated balance sheet and earnings statement of Western Department Stores (the parent company), Kahn Department Stores, Inc., Olds, Wortman & King, Inc., Northwest Department Stores, Inc., (the three store operating companies) and Morrison & Tenth Company (the company which holds the lease upon the property occupied by the Portland store).

EARNINGS AND FINANCIAL POSITION

The operating result for the year in comparison with the previous year is as follows:

	Year ended January 31	%	
	1944	1943	Increase
Sales	\$20,343,490	\$15,416,248	32
Profit before Federal taxes	2,778,556	1,665,942	67
Federal taxes	2,042,000	1,181,000	73
Net profit	736,556	484,942	52

The working capital at the end of the year was \$2,237,215. Provision has been made for Federal taxes in the amount of \$2,153,796 and tax notes of \$1,835,000 have been purchased in anticipation of tax payments.

The consolidated balance sheet and earnings statement is given in comparison with the previous year so that the progress made during the year can readily be determined.

The profits earned during the year and the amount received from the sale of Shiels Estate Company were largely used to pay the indebtedness to bank and landlord creditors.

Payments of \$494,564.33 were made during the year and the forbearance agreement with these creditors (which contained certain restrictive clauses) has been terminated.

The balance of \$500,000.00 due the banks at date of January 31, 1944, represented by unsecured notes payable, has been paid during February and March 1944 and the company now has no bank indebtedness.

SHIELS ESTATE COMPANY

In August 1943 the company disposed of its investment in Shiels Estate Company. The asset underlying this investment was property not used in the operation of the business and it was considered advantageous to dispose of it.

RECAPITALIZATION

At a special meeting held December 21, 1943, stockholders overwhelmingly approved a plan of reorganization providing for a recapitalization.

This plan provided that the Preferred Stock would become "Special Preferred Stock" with cumulative dividends at the rate of 6% per annum commencing February 1, 1944 and the no par value Common Stock would become \$1.00 par value Common Stock. It also authorized a new class of stock designated "6% Cumulative Convertible Preferred Stock," having a par value of \$25 per share.

Holders of Preferred Stock were given the right to exchange the same on the basis of one share of such stock (plus all unpaid dividends accrued thereon through January 31, 1944) for

1½ shares of 6% Cumulative Convertible Preferred Stock
or at the holder's option
1 share of 6% Cumulative Convertible Preferred Stock and
1 share of Common Stock

The plan required that at least two-thirds of the Preferred Stock outstanding be presented to the Transfer Agent for such exchange before such exchange would become effective. This requirement has been met and the exchange is now effective. Holders of Preferred Stock who have not forwarded their stock for exchange are urged to make their election immediately as the right to make such exchange expires April 21, 1944.

The changes in the capital structure resulting from the recapitalization will not be completed until after April 21, 1944, so the balance sheet presented in this report does not reflect these changes.

On January 31, 1944 the store operating companies (Kahn Department Stores, Inc., Olds, Wortman & King, Inc., and Northwest Department Stores, Inc.) were dissolved and the assets and liabilities of these wholly owned subsidiaries were taken over and assumed by the parent corporation (Western Department Stores).

DIVIDENDS

A dividend of fifty cents per share was paid on the Preferred Stock on May 17, 1943. As of January 31, 1944 unpaid dividends accumulated and accrued on the Preferred Stock amounted to \$12.33½ per share.

A dividend of 37½ cents per share (at the rate of \$1.50 per annum) has been declared on the 6% Cumulative Convertible Preferred Stock and on the Special Preferred Stock of record on April 29, 1944, payable May 10, 1944.

RESERVE

The reserve for contingencies and postwar adjustments was increased during the fiscal year to \$350,000.00 by an additional provision from profits of \$150,000.00.

GENERAL

This has been a year of accomplishments. The outlook at the beginning of the year was quite dubious with respect to obtaining merchandise, and, also, as to our ability to man our stores. But thanks to a loyal and resourceful organization these problems were successfully met, with the results which are shown in this report.

We have disposed of assets not pertinent to our business; we have paid off an indebtedness incurred prior to 1932 when the present management took over; a plan of reorganization has been worked out and adopted and the company is now in position to pay current dividends to preferred stockholders.

Your executives have been engaged in the preparation of postwar plans. These plans relate to all phases of the business—merchandising, organization and the physical properties. It is our expectation to have these plans well formulated so that with the conclusion of the war the company will be in a position to proceed promptly with the development of the business in the postwar period.

No forecast can be made for the coming year beyond the statement that we will continue to have with us the many problems and difficulties attendant upon doing business in wartime. But our organization has been equal to these difficulties in the past and we have confidence in its ability to meet them in the future.

To our loyal employees, who have helped to make possible the accomplishments of the past year, we wish to express our warm appreciation.

For the Board of Directors
JOHN J. REILLY, President

WESTERN DEPAR

(a California

AND WHOLLY OWNED STORES

CONSOLIDATED BALANCE

(With comparative figures)

(See accompanying notes)

ASSETS

	January 31	
	1944	1943
Current Assets:		
Cash in banks and on hand.....	\$ 1,604,176.26	\$ 1,059,838.62
Accounts receivable:		
Customers	\$ 891,881.51	\$ 1,125,565.49
Sundry	78,807.07	67,171.25
	\$ 970,688.58	\$ 1,192,736.74
Less—Reserves for doubtful accounts.....	108,615.38	135,347.84
	\$ 862,073.20	\$ 1,057,388.90
Inventories of merchandise:		
On hand, at or below cost as determined by the retail inventory method	\$ 1,829,009.56	\$ 1,872,028.26
In transit, at cost.....	260,347.87	364,590.58
	\$ 2,089,357.43	\$ 2,236,618.84
Total current assets.....	\$ 4,555,606.89	\$ 4,353,846.36
Investment in and Advances to Shiels Estate Company (wholly owned), less reserve of \$500,000.00.....	—	\$ 233,974.95
Miscellaneous Investments, Deposits and Advances	\$ 48,791.67	\$ 50,486.70
Estimated Post-War Refund of Excess Profits Tax.....	\$ 8,000.00	—
Capital Assets, at cost:		
Land	\$ 51,888.40	\$ 51,500.00
Buildings, furniture and equipment, etc.....	1,103,518.76	1,103,406.16
Leasehold and improvements to leased buildings.....	724,325.33	724,325.33
	\$ 1,879,732.49	\$ 1,879,231.49
Less—Reserves for depreciation and amortization.....	1,367,734.02	1,302,800.69
	\$ 511,998.47	\$ 576,430.80
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses.....	\$ 141,825.03	\$ 122,442.73
	\$ 5,266,222.06	\$ 5,337,181.54

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Cash in banks and on hand..... \$ 1,604,176.26 \$ 1,059,838.62

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RTMENT STORES
a Corporation)

RE OPERATING COMPANIES

SHEET—JANUARY 31 1944

(as at January 31 1943)

to financial statements)

LIABILITIES

	January 31	
	1944	1943
Current Liabilities:		
Notes payable to banks (Note B).....	\$ 500,000.00	—
Accounts payable, trade	928,533.10	\$ 942,249.68
Payrolls, taxes and accrued liabilities.....	571,062.52	423,629.66
Estimated reserve for Federal taxes on income.....	2,153,796.26	1,190,653.05
Less—United States Treasury Notes, Tax Series C.....	1,835,000.00	500,000.00
Unclaimed dividends of predecessor company.....	—	1,024.88
Total current liabilities.....	<u>\$2,318,391.88</u>	<u>\$2,057,557.27</u>
Liability to Banks and Landlords (Note B).....	<u>—</u>	<u>\$ 994,564.53</u>
Reserve for Contingencies and Post-War Adjustments.....	<u>\$ 350,000.00</u>	<u>\$ 200,000.00</u>
Capital Stock and Surplus (Note A):		
Capital stock:		
Preferred, 7% cumulative:		
Authorized and issued, 58,042 shares of a par value of \$25.00		
per share	\$1,451,050.00	\$1,451,050.00
Common:		
Authorized, 65,000 shares of no par value		
Issued, 62,788 shares at January 31 1944 and 62,788 11/15		
shares at January 31 1943.....	<u>35,001.00</u>	<u>35,001.00</u>
	<u>\$1,486,051.00</u>	<u>\$1,486,051.00</u>
Initial deficit	<u>326,488.33</u>	<u>326,488.33</u>
Stated capital	<u>\$1,159,562.67</u>	<u>\$1,159,562.67</u>
Earned surplus since reorganization April 8 1937, per statement attached	<u>1,438,267.51</u>	<u>925,497.27</u>
	<u>\$2,597,830.18</u>	<u>\$2,085,059.94</u>
	<u><u>\$5,266,222.06</u></u>	<u><u>\$5,337,181.54</u></u>

**WESTERN DEPARTMENT STORES
AND WHOLLY OWNED STORE OPERATING COMPANIES**

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS
YEAR ENDING JANUARY 31 1944**

(With comparative figures for year ending January 31 1943)

(See accompanying notes to financial statements)

	1944	1943
Net sales, including leased departments.....	\$20,343,490.35	\$15,416,248.43
Less—Sales of leased departments.....	2,744,777.17	2,152,562.54
	<u>\$17,598,713.18</u>	<u>\$13,263,685.89</u>
Cost of merchandise sold.....	11,496,022.32	8,630,442.10
Gross profit—own departments	\$ 6,102,690.86	\$ 4,633,243.79
Discounts on purchases	497,868.59	389,271.59
Gross income from leased departments.....	363,979.40	277,148.25
	<u>\$ 6,964,538.85</u>	<u>\$ 5,299,663.63</u>
Selling, general and administrative expenses.....	4,164,614.27	3,600,968.79
	<u>\$ 2,799,924.58</u>	<u>\$ 1,698,694.84</u>
Provisions for depreciation and amortization.....	64,933.33	64,503.04
	<u>\$ 2,734,991.25</u>	<u>\$ 1,634,191.80</u>
Other income.....	85,026.45	80,925.87
Other charges:		
Interest on bank loans.....	\$ 2,820,017.70	\$ 1,715,117.67
Miscellaneous	14,263.01	6,387.43
	<u>\$ 41,461.45</u>	<u>\$ 49,175.13</u>
Profit from store operations, before Federal taxes on income	\$ 2,778,556.25	\$ 1,665,942.54
Estimated provision for Federal taxes on income (Note C)	2,042,000.00	1,181,000.00
Profit for the year.....	<u>\$ 736,556.25</u>	<u>\$ 484,942.54</u>
Provision for loss on investment in Shiels Estate Company, \$500,000.00, less its profit for the year, \$5,487.31.....		\$ 494,512.69
Loss on sale of stock of Shiels Estate Company, \$523,156.47, less reserve for \$500,000.00 provided as of January 31 1943.....	\$ 23,156.47	
Additional Federal taxes on income of prior years, less related reduc- tions in reserves	21,596.44	8,643.43
Provision for contingencies and post-war adjustments.....	150,000.00	200,000.00
	<u>\$ 194,752.91</u>	<u>\$ 703,156.12</u>
Balance of profit to earned surplus.....	\$ 541,803.34	\$ 218,213.58
Earned surplus at beginning of year.....	925,497.27	1,143,710.85
	<u>\$ 1,467,300.61</u>	<u>\$ 925,497.27</u>
Cost of fractional shares of common stock purchased and cancelled..	\$ 12.10	
Dividend paid in cash on preferred stock, 50 cents per share.....	29,021.00	
	<u>\$ 29,033.10</u>	
Earned surplus at end of year (accumulated since reorgani- zation, April 8 1937).....	<u>\$ 1,438,267.51</u>	<u>\$ 925,497.27</u>

WESTERN DEPARTMENT STORES AND WHOLLY OWNED STORE OPERATING COMPANIES

NOTES TO FINANCIAL STATEMENTS—JANUARY 31 1944

GENERAL NOTE RELATIVE TO CONSOLIDATION:

The consolidated financial statements include the accounts of Western Department Stores and its wholly owned subsidiary companies, as follows:

Store operating companies:
 Kahn Department Stores, Inc.
 Olds, Wortman & King, Inc.
 Northwest Department Stores, Inc.
 Related real estate company:
 Morrison & Tenth Company

Effective as of the close of business on January 31 1944, the wholly owned store operating companies were dissolved and the parent company took title to their assets and assumed their liabilities.

NOTE A:

As at January 31 1944 the aggregate liquidating value of the 58,042 shares of the 7% preferred stock, plus the cumulative dividends accrued thereon were as follows:

Liquidating value at \$27.50 per share.....	\$1,596,155.00
Cumulative dividends accrued to January 31 1944, \$12.33 1/4 per share.....	715,851.33
	<hr/>
	\$2,312,006.33
Book value of net assets.....	<hr/> <u><u>\$2,597,830.18</u></u>

The liquidating value and cumulative dividend rights shown above have been modified as described below.

Under date of December 21 1943 the stockholders of the Company adopted a plan of reorganization which became fully effective on April 3 1944. The plan provides for recapitalization of Western Department Stores as follows:

1. The 58,042 shares of 7% cumulative preferred stock outstanding were renamed and became 6% cumulative special preferred stock (par value \$25.00 per share) with liquidation and redemption at \$26.50 per share. The new rate of dividend is effective February 1 1944.
2. The 62,788 shares of common stock of no par value became \$1.00 par value stock.
3. A new class of stock designated as 6% cumulative convertible preferred, par value of \$25.00 per share, was created, with preferential rights over all other classes of stock with respect to cumulative dividends and liquidation and redemption at \$26.50 per share. This stock has the right of conversion into common stock of the Company in the ratio of one share of such preferred for one share of common stock.
4. Each share of special preferred stock, together with surrender of right to dividends accumulated and accrued to January 31 1944 of \$12.33 1/4 per share, is exchangeable for 1 1/2 shares of 6% cumulative convertible preferred stock (\$25.00 par value per share), or one share of 6% cumulative convertible preferred stock and one share of common stock at the option of the stockholders. The right to make such exchange expires April 21 1944.

In connection with the foregoing plan of reorganization, the initial deficit of \$326,488.33 will be eliminated by charge to earned surplus. This initial deficit represents the excess of the par value of the preferred stock and the stated value of the common stock issued in reorganization at April 8 1937 over the net assets acquired from the predecessor company.

NOTE B:

The forbearance agreement with banks and landlords was terminated during the year and the indebtedness has been reduced to \$500,000.00 at January 31 1944, represented by unsecured notes payable to banks. These notes have been paid since January 31 1944.

NOTE C:

The estimated provision for Federal taxes on income consists of:

Income taxes	\$ 182,000.00
Excess profits tax	\$2,066,000.00
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Less:	
Debt retirement credit	\$198,000.00
Post war refund credit.....	8,000.00
	<hr/>
	206,000.00
	1,860,000.00
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	\$2,042,000.00

ACCOUNTANTS' REPORT

San Francisco
April 8, 1944

TO THE BOARD OF DIRECTORS OF
WESTERN DEPARTMENT STORES

We have examined the consolidated balance sheet of Western Department Stores as of January 31 1944 and the related statement of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statement of profit and loss and earned surplus, together with the notes appended thereto, present fairly the position of the companies at January 31 1944 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co.



